10/14/83 B4750-1

Financial Markets

Irving Trust

Irving Trust Company
One Wall Street
New York, NY 10015

Economic Research &
Planning Division

Friday
(Noon)

Oct. 7, 1983

The financial markets definitely have picked up the trend of lower U.S. interest rates. The short-term money markets, the long-term capital markets, and the equities market have all responded favorably. And--at long last--the dollar has moved lower and seems to be vulnerable on the foreign exchange markets. The "consensus" that U.S. rates are moving lower has come for only one perceptible reason: M1 has remained firmly within its new monitoring range since mid-August. However, with so many participants looking for lower rates, a number of justifications for a lower rate environment have been offered. But do these really carry weight?

Most of them really don't. They amount to mere after-the-fact justifications. For example, the most popular explanation for lower rates is the current LDC debt problem. Surely the U.S. must lower rates for this reason. In 1982 the debt problem was the prime concern of the Fed and (probably) the reason for a more lax monetary policy at that time. This year, right after the recent IMF meeting and before the FOMC met again, interest rates began moving down, and the dollar began to lose its steam. Surely this is no coincidence of timing, or so the claim goes.

I don't buy this argument for several reasons. First, in 1982 the debt crisis hit with full impact and came as quite a surprise because of the scope and depth of the problems that emerged. Concern over the systemic consequences of the crisis led the Fed to pursue a more moderate monetary policy than it otherwise would. Now, however, circumstances have changed. The debt problem is more mature, and in some ways worse, but it is being delegated to the appropriate specialists. While concern over the LDC problem still tempers the Fed's activities, I cannot believe that it is the prime factor in moving U.S. rates down a few basis points: A few ticks off the level of rates simply don't help the indebted that much. Moreover, the market's focus is on a few highly publicized events involving particular debtor nations. In these cases we must feel that the U.S. would do something specific to help an individual country rather than to alter the entire course of U.S. macroeconomic policy.

Some argue that rates must be lowered to promote economic recovery. Indeed, the main thrust of U.S. monetary policy is to promote recovery in the U.S.: This is an objective that serves both domestic and international purposes. This recovery continues to be on track and as vigorous as the average postwar recovery. There is no pressing need, however, to lower rates now to give this economy a shot in the arm. Indeed, the Fed does not seem to have moved rates that much: The reserve positions of the banking system vis-a-vis the Fed have swung widely in recent weeks with no clear trend toward ease. The market, however, has moved on the expectation that well-behaved money growth will continue, and this will keep rates from ratcheting up again soon. However, because the recovery is still well on track and because some of the inflation news is not so good, we should expect the Fed to remain stingy with further rate declines--even if the market presses for them.

Robert A. Brusca

Irving Trust

Market Yields

	10/7/83 (Noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	11.00%	11.00%	13.00%
Effective since	8/8/83		
Discount Rate at Federal Reserve Bank	8.50	8.50	10.00
Federal Funds	9.38	10.50	9.63
Repurchase Agreements	9.30	9.50	9.38
U.S. Treasury Issues			
Bills			
3 months	8.89	9.08	7.64
6 months	9.29	9.48	8.67
1 year	9.66	9.83	8.97
Coupons			
2 years	10.40	10.54	9.84
4 years	10.90	11.00	10.37
7 years	11.28	11.39	10.61
10 years	11.30	11.43	11.20
Long Bond	11.35	11.44	11.13
Negotiable Certificates of Deposit-Secondary Market			
1 month	9.05	9.10	9.60
3 months	9.15	9.15	9.70
6 months	9.30	9.40	9.60
1 year	9.80	9.90	9.80
Banker's Acceptances			
1 month	9.05	9.20	9.60
3 months	9.20	9.25	9.70
6 months	9.35	9.42	9.55
Eurodollar Deposits			
1 month	9.43	9.50	10.38
2 months	9.43	9.50	10.50
3 months	9.56	9.63	10.75
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	9.14	9.14	9.14
1 month	9.19	9.33	9.71
3 months	9.21	9.74	10.00
Bank Holding Companies			
1 month	8.81	8.81	9.71
Dealer Placed:			
3 months	9.24	9.42	9.21
New AA Corporate Utility Bond	12.50	12.55	13.00
Tax Exempt			
6 month Project Notes	5.20	5.30	4.75
1 year AAA Bond	5.25	5.25	5.10
5 year AAA Bond	6.70	6.70	7.00
20 year AAA Bond	8.90	8.90	9.00

This information represents prevailing market yields.
It should not be construed as an offering.
All yields are on the offered side of the market.

Cable Address:
"IrvingBank" Telex: I.T.T. 420268 • R.C.A. 232241
W.U.I. 62832 • French 82629